

1 Introduction

The cause of poverty is poverty itself. Poverty, like wealth, is inherited. It is the legacy of poor health and education combined with limited access to only the bare minimum of assets that places children born to poor parents at a serious and often lifelong disadvantage. Nowhere is this more evident than in low-income developing countries. Poor dependants carry through successive generations the burden of the status they inherit, engendering, *sui generis*, a certain historical inevitability about poverty. Unless critical corrective institutional factors are brought to bear on their condition and distributive changes occur, their status will not improve.

There is still, however, a widely held perception that poor people are poor simply because they are indolent and unwilling to work. As will be argued, this attitude flows, at least in part, from the workings of the English 1834 Poor Law Act. This non-understanding rather than uncompassionate piece of legislation established the infamous 'less eligibility principle' that not only labelled the 'poor' but also categorised them as lazy. It made people believe they were poor because their number included 'able-bodied' adult males who preferred to seek indoor relief in the Poor Law Institutions rather than find work. They and their successors have thus carried the unfortunate stigma of being work-shy down the generations.¹

The multiple and complex dimensions of poverty are now generally recognised, but what the above features underline is, first, that people have been conditioned over successive eras to view poverty, paradoxically, as being amenable to a single solution, viz., through the exercise of personal initiative and a 'willingness to work'. This view has been influenced over time by both approaches to the measurement of poverty and perceptions as to its apparent causes. It has also been affected by the associated policies that have been implemented to deal with the poor. Many actions taken may have been based on survey observations, but they also confused the symptoms and manifestations of poverty with its more basic causes. Second, the official position implicitly recognises that central to the

¹ This is despite the fact that the Parish Poor Law Institution was commonly known as the 'Workhouse' and inmates were required to perform menial and physically demanding tasks to earn their keep.

Perceptions of Poverty

The Historical Legacy*

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question of poverty and its persistence is the labour market: how it works, how labour is remunerated and the scope of opportunities for employment.

Are the poor lazy, socio-economically marginalised, or simply unlucky? What has not been addressed is how the 'social relations' embedded in different forms of production and employment have affected the distribution of income and poverty. Do established institutions and legal systems work against the poor? Third, and most relevantly, this official position draws attention to the fact that the inadequate social functioning at the root of poverty is clearly linked to the lack of assets available to the poor. By various measures, therefore, lasting solutions to well-being may be achieved only by the redistribution of tangible and non-tangible assets, and the services associated with them, to households that are dispossessed or otherwise without basic means of regular support.

2 Choice of Strategy

This article pursues themes initiated in the late 18th and early 19th centuries that were inspired by a debate about the relationship between poverty and social security. It argues in support of a political philosophy and associated policies advocated by some influential French economists of the time, who were strongly sympathetic to the views of Adam Smith. The French believed it was possible to promote national economic well-being through schemes of public works that would not only provide employment to casual labour and the unemployed, but also, when completed, directly serve the needs of the poor. This idea recognised the need for schools, roads, water supply systems, etc., to improve the status of humankind, expand the economic infrastructure of the country and strengthen the basic foundation of society. Regrettably, these schemes were not adopted before being overtaken by the calamitous events of the French Revolution, itself a process of social change provoked by peasant and 'citizen' impatience. The people demanded 'liberty' and 'equality' and took the law into their own hands to end their suffering beneath a yoke of virtual serfdom (Rothschild 1995; Ward 1996). They felt

condemned to a life of unmitigated drudgery with little prospect of any reward for their labours.

Britain managed to avoid a similar upheaval, but since the early 19th century many of the policies followed to deal with poverty have negatively influenced attitudes about how the poor should be treated. The English approach was not essentially concerned with poverty reduction or even its adequate alleviation, so it compounded the basic problem and led, inevitably, to the institutionalisation of poverty. The Law kept people poor and 'where they belonged', i.e., in a status of relative subjugation. The authorities further 'pauperised' the poor by making them dependent on public relief. These policies, implemented through a local administrative process, were not designed with the contemporary economic philosophy so eschewed by Benthamite liberals of providing 'the greatest happiness to the greatest number' in mind. The decisions were dominantly driven instead by local budgetary considerations. They thus reflected a more fundamental concern not to increase the burden of tax on the wealthier land owners and industrialists, who were not only those in power but also the primary income generators. In that sense, the 'mean' policies pursued through the first half of the 19th century could potentially represent, at best, only a minimal and partial response to the problem.² At worst, such policies entrenched even deeper the legacy of poverty. Because of Britain's influence at the time and particularly in pioneering factory work and industrialisation, the direction taken by the authorities in the early 19th century to deal with poverty has had a universal influence. As a system with a primary focus on the costs of supplying poor relief, it appealed to administrators, but it also had obvious merits for the rich and powerful. But for these reasons, it has also proved difficult to escape from its precepts, and the approach helped establish a pattern of income distribution that has since become institutionalised.

3 The French Connection

The English method of dealing with the poor can be contrasted with the somewhat different emphasis given on the Continent, particularly in France in

² It is to the eternal credit of many parish commissioners and a moving testimony to their individual concern about the plight of potential supplicants that, in addition to keeping micro-level budget details on the cost of feeding inmates, they also

recorded in detail the reasons why certain people, and often whole families, sought indoor support through the workhouse; the dismal picture of the lack of any local employment opportunity clearly comes through these reports.

the late 18th century. Under the innovative and intelligent initiatives of Turgot and Condorcet, the French authorities believed in expanding public works and counteracting, through the accompanying taxation of those with resources, the evident exploitative economic malaise in the system. Sadly, their approach was cut short by the French Revolution and their strategy arrived too late before being overwhelmed by the subsequent more catastrophic political events and social upheaval of the time. Paradoxically, this saw the guillotine for Condorcet, the originator of modern social insurance and a truly noble champion of the poor. The views of Turgot, minister of finance (1774–6), as well as Condorcet, an economist, were all the more remarkable because, at the close of the 18th century, the security of the poor in France was based primarily on personal charity, parish support (from the roll of contributions) and the large humanitarian outreach of the hospitals and foundations in the towns, run by the church, Knights Templar, Hospitallers and Sisters of Mercy. It was a system based on the insecure flow of compassionate humanitarian support that was weakest when it needed to be strongest. Such ideals did not take firm hold on opinion in Britain until the middle of the 19th century and only then through the influence of influential journalists, novelists and certain caring and enlightened politicians.

In analysing poverty and assessing strategies for its alleviation, policies must go beyond a review of poverty baskets and consider the broader question of overall packages of support for the poor. This article takes up some of the arguments propounded by Smith and suggests that it is total (market and non-market) consumption and how this is created and distributed and not production *per se* that is central to the question of poverty reduction (see *Annex I* for how consumption is distributed between market and non-market services and how these decisions are driven). This is discussed in the context of current World Bank strategy. While clearly related, the solution is not simply a question of raising monetary incomes and ensuring that everyone is provided with a minimum bundle of goods and services. Sustained progress must come through increased private sector participation in economic activity. This is unlikely to

be the case if the conditions for wider participation do not already exist. This is not to deny that, eventually, a secure flow of market generated income will provide a key element of the ongoing remedy to the problem of maintaining well-being. But the major question remains: how to get private firms to set up business to provide jobs in poor regions and thus create employment and incomes for poorer people in the first place? That objective requires paying at least some attention to the building up of a modern, efficient infrastructure base. This means emphasising public works and prioritising resources to generate the critical levels of service that create the basic conditions for economic opportunity and foundations for progress. Keynes is not dead, Roosevelt was probably right; and the poor need a 'New Deal'.³

4 World Bank Poverty Policy

For several decades, the Bank has supported efforts around the world in the direction of poverty alleviation. This strategy rests on a three-pronged approach, or what some irreverently refer to as 'the 2½ leg stool', that focuses on the need to:

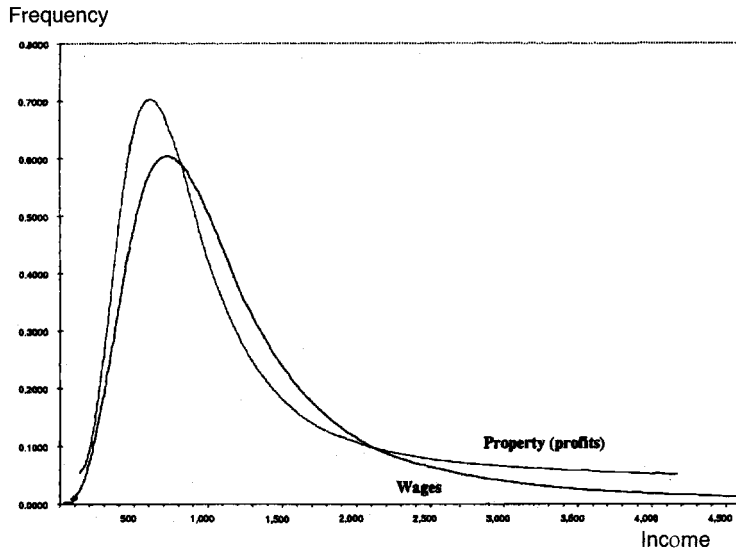
- (a) *promote economic growth*, to raise incomes and spread employment;
- (b) *improve human capital*, through enhancement of the skills and health of the poor to help them take advantage of the expanded employment opportunities brought about by growth; and
- (c) establish effective *social safety nets*.

It is noticeable that these conditions exclude any reference to the need for physical capital and the provision of assets (either through the creation of capital or its implicit and indirect redistribution) to improve well-being. The approach has changed little since the original thesis was expounded in the first *World Development Report* of 1978. It relies dominantly on economic 'flows' and rests on the reassuring notion that developing country governments have only to share in the general rising tide of global economic activity to raise not just the GNP of their own countries, but also, specifically, to lift their poor inhabitants out of poverty. The Bank has actively promoted economic growth as the panacea ever since. Superficially, the thesis is appealing

³ The concern here is less with the 'multiplier' effects of public employment than with the 'accelerator' role of infrastructure investment and its direct benefits to the

community as well as the important externalities it generates (see below).

Figure 1: The relative distributions of wage and property incomes



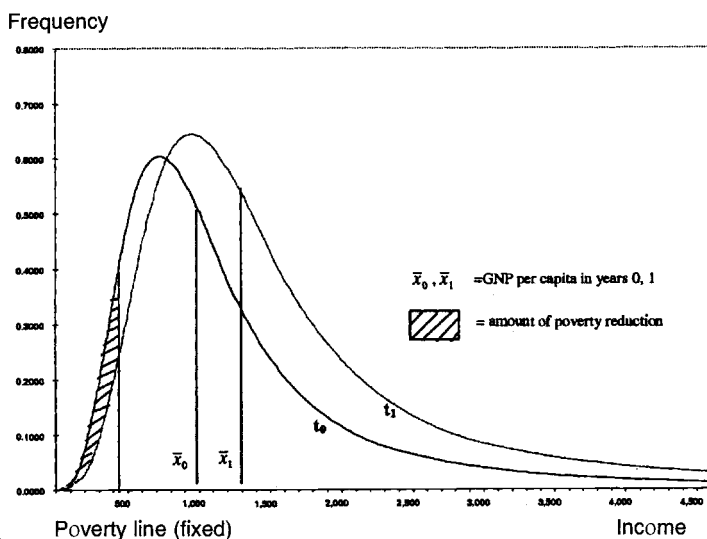
because, other things being equal, household well-being is enhanced by having more material goods and services at the disposal of families. But, naively, the strategy counts on global and national prosperity being shared, on the new goods made available from growth being evenly distributed through existing market mechanisms, and on national income 'trickling down' to those most in need. It is dependent on an efficient and effective direct tax system to reallocate a more than proportionate share of the benefits of growth to the disadvantaged. It also looks to the tax system to create the public goods that may help the poor function more effectively.

Setting aside the apparent evidence of an international decline in the percentage of poor people – when this is judged against an arbitrary money-metric low income threshold that few poor countries actually recognise – the truth is that the absolute number of poor, judged by the same measure, is increasing on a global scale. Economic growth thus emerges as a necessary, but hardly sufficient, condition for the removal of poverty. The problem is that the returns to capital and labour are not equal in the growth upturn and the inequality in property (capital) shares is greater than that for labour; when an economy grows, the return on investment increases and the rich receive a greater share of the rewards (see Figures 1 and 2). Even if evenly shared, a reasonably good economic performance of, say, 5% will translate into only a small command over extra goods and services for the poor (see

Figure 3). Again this is because 'absolute' growth tends to reward the owners of capital more than proportionately. Growth thus makes only a marginal difference to the level of well-being of the poor in the immediate period. Market growth must be shared and accompanied by the provision of collective public goods and well designed transfer policies if poverty is to be reduced directly. Otherwise, the same poverty amongst the same poor people will be entrenched by a continuing inappropriate distribution of income and assets. Clearly targeted social safety nets will also be needed for those in permanent distress or unable to benefit from the additional income earning possibilities being provided.

Poverty arises from the lack of access by the poor to productive assets and the economic opportunities needed to help them escape from being placed at a perpetual disadvantage. Traditionally, while it is easy to think of rich landowners controlling most of the productive resources, many of the assets that could potentially contribute, directly and indirectly, to improving well-being have been located in the public sector. The services of health and education, the presence of a secure social environment as well as the communal provision of physical facilities to improve well-being, save time and money. They reduce the costs of conducting economic transactions. Such public assets as roads and street lighting (for safety), water supplies and sewage disposal facilities provide a real service to the poor. In most

Figure 2: Changes in income distribution; impact on average income and poverty shares



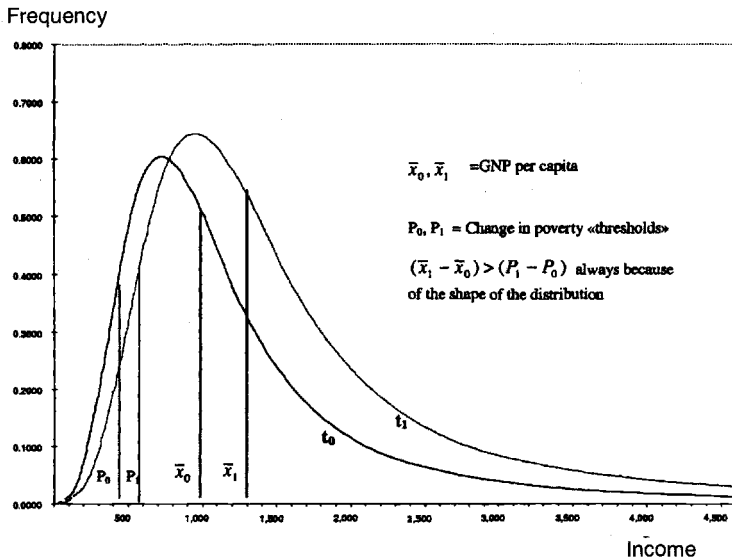
poor countries, however, these assets are badly run down and ineffectively maintained, particularly in urban areas. In much of Africa, for example, there has been a long-term real under-investment in physical infrastructure and other public goods. Furthermore, the regional benefits of some public investment facilities like ports, telecommunications and transnational roads have often been overlooked and underestimated. The externalities that arise from good public infrastructure facilities plus the flow of services they generate frequently outweigh the apparently negative net costs that, in some narrow business accounting sense, the auditors identify. This is calculated as the cost to the public – rather than the private – sector which has to be incurred to keep these facilities going. But private firms balance up such questions as ‘what is there for me in country X?’, and ‘how can I do business in X?’. Such issues need to be revisited, not least because the non-specific public subsidies that flow implicitly to labour and private production may also provide the catalyst to expand private output.

Even if it seems evident that, in some aggregate financial sense, the net costs will be a chargeout to the public purse, there will be a positive impact on the community at large if such public infrastructure benefits fall especially on low-income households. Collective public subsidies, then, may well be justified. Indeed such subsidies, effectively directed to poor households, would be no less desirable than

badly designed taxes whose incidence falls unfairly on those who need employment incentives and other forms of support. The provision of low cost infrastructure services to beneficiaries may have more desirable social consequences than specifically designed social safety nets.

To outside observers, what may seem paradoxical about some aspects of the Bretton Woods institutions’ development policy is that, in pursuing the otherwise noble aims of stabilisation, adjustment and effective market operation, these institutions have themselves created the conditions where, for ‘able-bodied’ individuals, the very social safety nets they advocate have been inevitably required. In reality, there has been less action to address the frictional and cyclical issues of income and employment because of the fundamental concern to deal with long term structural change. In designing effective safety nets and putting in place successful programmes to encourage self-selection and provide appropriate incentives for the poorest to participate in the system, the ‘best practices’ that have been advocated and developed by the World Bank have come from its experience in trying to ameliorate the social costs that accompany structural adjustment and macro-economic stabilisation measures. Evidence now suggests that the overall thrust of adjustment policies has lowered the living standards of vulnerable groups and placed them in an even more fragile and disadvantaged economic position.

Figure 3: Changes in income distribution; impact on average income and poverty 'cut-off' levels



The World Bank's approach, which underlines the pivotal role of private sector development in the growth process, focuses heavily on the money-metric measurement of poverty and hence on minimum satisfactory income levels. This measure reflects an ideology that goes back more than a century and a half, and is enshrined in the original 'Less Eligibility' Principle of the 1834 Poor Law Act as applied to those 'able to work'. It is clearly linked to notions of an 'acceptable' minimum (rather than a 'just') wage and represents a utilitarian 'budgetary' philosophy of securing minimal living standards, the exercise of central management, and establishing effective damage control. It lays emphasis on the role of personal responsibility and underlines the parallel market requirement to offer 'competitive' wages to encourage employment.

5 Public Expenditures and Infrastructure Development in Poor Countries

Why is this attention to public strategy and the role of infrastructure important? Critically, it is because the engagement of low wage labour in developing public capital is directly beneficial while also indirectly generating a social surplus that is widely available to society. By contrast, low wage employment in the private sector produces a private surplus that is shared, if at all, with few others in the economy. This private profit

creates imbalances in the internal income distribution and on the external trade account. There are important features of public investment policy that are relevant to the whole poverty question and attention needs to be paid to optimising such investment strategies to the benefit of the poor. More generally, reasserting the significance of public works in the development equation is important because:

- Economic and social infrastructure is an essential overhead – it is a key element in national wealth, just as all the other assets and resources available are considered to be essential factors of production.
- Private firms will not get established, nor function effectively and efficiently, where the infrastructure which provides the basic mechanism wherewith exchanges are transacted remains dysfunctional, disconnected, run down and inadequate.
- Public assets generate, directly, real consumption service flows that benefit the poor and are as significant to the overall quality of life as market goods and services are significant to the household's basic material standard of living.

Unfortunately, many large cities in the developing world are characterised by inner urban decay and rural communities remain poorly served by public facilities. Infrastructure assets have been allowed to run down through lack of maintenance and investment.

Facilities have broken down because local administrations have had insufficient resources and inadequate skills to maintain them. In addition, many amenities have been unable to cope with the increasing demands being placed on them. The inevitable response of city and local governments, viz. to cut outlays and raise tax rates, is counter-productive since this encourages private firms to migrate and reduces employment. It allows the burden of taxes to fall disproportionately on a residential community less free to move. The capacity (and willingness) of private households to pay the increased levies is minimal; the quality of social services – particularly of high labour-input cost services like education and health – falls accordingly. This places a further disadvantage on poorer families and encourages the richer and better educated to move out, or to resort to the private provision of such services.

Over time, the ways in which people and policymakers have perceived the complex nature of poverty and identified who are poor has been influenced as much by history as by specifically focused research. The influential early work, more than two centuries ago, of Sir Frederick Morton Eden pioneered studies of the poor and enquiries into the causes of individual deprivation. The sequence of 'official' enquiries throughout the 19th century – including successive Poor Law Commission Reports, the monumental (urban) surveys of Rowntree and Booth, and Llewellyn Smith's lucid commentary, as Registrar General, on the 1901 Census of England and Wales – all had a major impact on official attitudes to poverty, wage employment and the poor. But politicians, driven by the need to address the issue of poverty alleviation at minimal charge to local benefactors and taxpayers as well as to the national treasury, remained relatively insensitive to what has been observed as to the nature and causes of poverty. Early reformers, like the Benthamite Utilitarians, with their misguided support for the 1834 Poor Law Reform, did much to reinforce these attitudes. Many of these remain in place today.

English historical experience also strongly influenced approaches to poverty alleviation and the provision of social safety nets worldwide. Even within living memory, poverty was still regarded as just recompense for sloth and idleness – the antithetical justification for work. Many decision-makers have believed that the answer lay in rounding up the poor

and indolent, putting them to honest toil in the fields and rewarding each with the present day equivalent of 'half a loaf of bread and a pint of porter' for their labour. However, when there are no crops to harvest, no roads to build, or public money around to clean the streets, the system clearly fails and this simple, transparent view is exposed. Until governments are able to provide the proper economic structure and the genuine income earning opportunities that establish a sustainable demand for labour – and do not simply create employment for its own sake – casual observers can be forgiven for being sceptical about any official determination to come to grips with the problem of income generation.

Even today, there are business managers in many parts of the world who, in part misled by a conservative Reagan-Thatcherite philosophy about the relative significance of labour and capital and their relative capacities to raise incomes and bring about progress, believe that to make the rich work harder it is necessary to pay them more, but to make the poor work harder it is essential to pay them less. At the close of the 18th century, by contrast, Adam Smith, always a fervent supporter of high wages, would have had no truck with the convoluted and paradoxical rationale underlying such thinking. He thought well-paid labourers would be encouraged to better their position and that, when wages were decent, workmen would be more active, diligent and expeditious. He argued, logically, that labour was very unlikely to work any harder if, as a result of low wages, people were ill fed and frequently in poor health. The received wisdom embraced by most contemporary employers in Smith's time of the 'invigorating effects of poverty' was unlikely to have encouraged great ardour. Unfortunately, this very sentiment seems still to prevail among more than a few current business enterprises. There are notable chief executive officers of companies who want to dismantle many aspects of fair labour conditions, particularly with respect to health and insurance, and who will pay minimum wages (or the lowest they can get away with). These employers, in going for the 'bottom line', have always preferred to have access to a readily available pool of 'surplus labour' to enable them to dip into the labour supply. The days of lasting obligations and lifetime commitment to loyal staff in good times and bad have clearly passed.

History reveals that low wages alone have never given rise to harder physical effort, lasting productivity

improvement and competitive gains. In a global market situation, if firms in developing countries no longer have any 'Ricardian' (cheap natural resource) advantage, or potential 'Heckscher-Ohlin' (similar or higher technological and productivity) advantage, then they will not be able to become effectively engaged in the international economy. In such circumstances, cheap labour alone will not be sufficient to make these firms competitive and viable.⁴ The broad sweeping epochs of economic advance, rapid employment expansion and poverty reduction in Europe and Asia have all been accompanied, not by the payment of low wages, but with the higher remuneration associated with productivity increase, skills improvement, and invention.⁵ In this, the public attention paid to the development or upgrading of the supporting economic infrastructure has been an important ingredient.

6 The End of Necessity

What also comes out of this early debate is the significance of the linkage between wages and the price of necessities, and particularly the importance of reforming the Corn Laws to provide the poor with, in Smith's own words, 'the right to secure lives'. Smith, who, in turn, had an immense respect for Turgot and his ideas, emerges as a truly radical as well as rational thinker on poverty. He remained throughout a strong believer in the alleviation of human misery as being the primary purpose of economic activity. While supporting free markets and limitations on state power, he also countenanced the intervention of government to improve the life chances of the poor. In his writing, there was little resort 'to the kind of social Darwinism that was to characterise so much of the *subsequent* neo-liberal agenda' (Ghai in Rothschild 1995). This is an

agenda that still influences economic thinking today because it argues for the need to reduce poverty by keeping labour costs low, and also emphasises labour intensive activity as a means to encourage greater employment.

Poverty issues thus remain clouded by political rhetoric and a continued muddle between historical, ideological, sociological and economic perspectives. Since some of this thinking still regards poverty as an irrevocable and irreversible status of life, divinely endowed to test the human will and challenge an individual's strength of faith, conservative prejudice continues to permeate established institutional structures. Such 'rules of the game' shape society and can still determine modern approaches to policies to deal with the poor. The evidence of recommended coping strategies found in the inner cities and urban ghettos of modern America attest to this. Many programmes clearly do not work. Dislocated from the mainstream of economic activity and imprisoned by a social engineering that restricts opportunity, the urban underclass has only become deeper entrenched in its disadvantaged circumstances and the rural poor increasingly detached from income-generating opportunities. Welfare certainly needs reform, but not at the expense of those who are already poor. The developed countries do not set an appropriate example in this context.

The cumulative, interactive deterioration in the provision of public goods and services in the cities of low-income countries, however, is taking place just at the time when low-income rural dwellers are flocking to the cities to find employment and more secure income. This is not an argument for pure Keynesian strategies, *per se*, to deal with the growing poverty issues in developing countries; but a

⁴ Indeed, today, in an era when due recognition is being given to the importance of 'knowledge capital', it seems incomprehensible that, in an enlightened society, major business enterprises that pride themselves on capable and far-sighted management should continue to spend so much time and energy, while facing declining profits, increased expenses, lost turnover and diminished market penetration, in trying to beat down wages and the unit cost of labour. The preferred solution is to expand the value of human capital, upgrade skills and make staff more flexible, mobile and loyal through continuous training and becoming better connected to the company.

⁵ In this respect, it is worth pointing out that a recent plant level productivity study carried out in the US by a leading firm of accountants reveals that the most productive companies are those where labour is not so much well educated in a traditional sense but is aware and supportive of management's aims and objectives and has also been given the relevant 'on-the-job' skills and training to adapt to changing environments. The lesson here is that the second leg of the poverty strategy, namely, increasing the value of human capital and providing appropriate incentives (many of which can be non-monetary), has to be pursued very carefully. It cannot be resolved simply by expanding formal education and lengthening the number of years of schooling alone.

plea for public investment as a means to improve employment opportunities and to make it cheaper, easier and more effective for private firms to come in, set up business and create jobs.

The 1998 'World Development Indicators' Report', while declaring the merits of privatisation and the need to take account of the all-important institutional 'rules of the game', shows all too clearly that poor performing economies and low private sector involvement are associated with an inadequate and sometimes completely disintegrated infrastructure that has created enormous gaps in the economy's supply function, affecting the costs and efficiency of energy provision, transport facilities, the assurance and consistency of electricity, supply, etc. These assessments are both qualitative (entrepreneurs' own evaluation of the quality of infrastructure) and quantitative; see Tables 3.8 (Energy Efficiency), 5.9 (Transport) and 5.10 (Power and Communications) of the 1998 WDI Report. In all cases, the worst examples can be found in those countries with the lowest GNP per capita. Table 2.7 in the 1998 WDI shows the latest information on poverty, as measured by: (a) conventional national poverty figures, and (b) selected internationally comparable poverty datum standards. Data elsewhere in the WDI convey

information about health and nutritional status also at the individual country level. Nevertheless, drawing towards the close of the 20th century, the paucity of relevant and comprehensive data on poverty is disturbing, suggesting a long-held preference to ignore the problem and its complexities.

7 Concluding Remarks

The way governments, since the beginning of the earliest records, have collected empirical information on the poor has tended to bias perceptions. It has led analysts to focus attention on preconceived factor market models and conventional explanations rather than to work with freely associating data and independent inquiries that could potentially have captured the multi-faceted dimensions of poverty and its basic causes. Such related evidence suggests that, at least in Britain, the steps towards political reform initiated in the 1832 Reform Act, the implementation of the 1848 Public Health Act and the great municipal works of the latter half of the 19th century which provided, for the first time, proper water, waste disposal, sanitation and sewerage facilities, as well as housing, etc. did much to raise living standards and to bring a large number of people above the threshold of real poverty.

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Annex I: Components of levels of living

General Consumption of Goods and Services

